LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 8146 **DATE PREPARED:** May 7, 1999
BILL NUMBER: HB 1001 **BILL AMENDED:** Apr 29, 1999

SUBJECT: State Budget.

FISCAL ANALYST: Alan Gossard, Jim Sperlik, Diane Powers
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FUNDS AFFECTED: **X GENERAL**
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *State Budget:* This bill appropriates state money for the biennium beginning July 1, 1999, and ending June 30, 2001. This bill authorizes certain capital projects.

Children's Health Insurance Program: The bill establishes the advisory committee for children with special health needs. The bill establishes the children's health policy board. It provides for the Children's Health Insurance Program (CHIP).

Community college program: It establishes a community college program.

Community Corrections: It provides for community transition programs administered by community corrections.

Education: This bill revises the primetime formula and provides for school funding. The bill also revises the vocational education grant program. It delays the implementation of fiscal year budgeting for schools. It provides for school technology funding.

Pension Relief: It increases the amount of surplus gaming revenue that is transferred to the Pension Relief Fund.

Tax Provisions: (1) Eliminates the county welfare fund and county welfare administration fund property tax levies.(2) Provides a state paid credit against property taxes on the first $12,500 of assessed value on all personal property. (3) Provides an adjusted gross income tax deduction for residential property taxes up to $2,500. (4) Eliminates the add back for property taxes under the adjusted gross income tax. (5) Provides an earned income tax credit. (6) Repeals the earned income tax deduction.

Safe schools programs: It provides for safe schools programs.

Swap Agreement: This bill amends the law concerning swap agreements.

Administrative Provisions: The bill changes the State Gaming Account to a fund. It includes a mental health facility in the definition of a facility for purposes of the state office building commission law. The following changes are made concerning the Indiana Development Finance Authority: (1) Allows the Indiana Development Finance Authority to triple its contribution to a participating lender's loan loss reserve fund if the borrower is a child care facility currently licensed by the state. (2) Allows the Indiana Development Finance Authority to issue bonds for the purpose of financing capital expenditures at licensed child care facilities in the state. (3) Allows the Indiana Development Finance Authority to use appropriations to create a debt service reserve fund for the purpose of allowing the authority to issue pooled bonds for the construction or renovation of licensed child care facilities. The bill adds provisions concerning TRF undistributed income. The bill also creates the Tobacco Settlement Fund and makes changes concerning temporary assistance to needy families.

Effective Date: (Amended) July 1, 1998; January 1, 1999; Upon Passage; July 1, 1999; January 1, 2000; June 30, 2000; July 1, 2000; January 1, 2001; March 1, 2001.

Explanation of State Expenditures: (Revised) This bill appropriates funds for the FY2000 and FY2001 biennium. The appropriations made in this bill are summarized in the following tables.

Total Appropriations (Operating and Capital): FY2000-FY2001.

Fund Type	FY 2000	FY 2001	Biennial Appropriations	Total Appropriations
General Fund	6,772,846,679	7,032,865,350	938,860,938	14,744,572,967
Dedicated Funds	3,335,788,616	3,518,970,524	339,703,731	7,194,462,871
Federal Funds	604,275,523	624,904,943	1,467,100	1,230,647,566
Total	10,712,910,818	11,176,740,817	1,280,031,769	23,169,683,404

Note: These totals are subject to verification with the State Budget Agency.

Operating Appropriations: FY2000-FY2001.				
Fund Type	**FY 2000**	**FY 2001**	**Biennial Appropriations**	**Total Appropriations**
General Government				
General Fund	270,238,530	303,467,230	112,501,818	686,207,578
Dedicated Funds	28,330,557	27,258,557	1,607,876	57,196,990
Federal Funds			1,467,100	1,467,100
Total	298,569,087	330,725,787	115,576,794	744,871,668
Public Safety				
General Fund	599,807,577	602,078,119	42,457,878	1,244,343,574
Dedicated Funds	178,528,499	175,408,375	1,472,500	355,409,374
Federal Funds				
Total	778,336,076	777,486,494	43,930,378	1,599,752,948
Conservation and Environment				
General Fund	74,175,964	74,859,228	10,484,318	159,519,510
Dedicated Funds	113,251,955	113,271,351	6,005,760	232,529,066
Federal Funds				
Total	187,427,919	188,130,579	16,490,078	392,048,576
Economic Development				
General Fund	39,516,883	40,424,405	61,099,000	141,040,288
Dedicated Funds	1,283,788	1,283,788		2,567,576
Federal Funds				
Total	40,800,671	41,708,193	61,099,000	143,607,864
Transportation				
General Fund	101,144,948	101,162,680		202,307,628
Dedicated Funds	576,056,015	585,718,108	22,223,569	1,183,997,692
Federal Funds	578,092,927	598,722,347		1,176,815,274
Total	1,255,293,890	1,285,603,135	22,223,569	2,563,120,594
Health and Human Services				
General Fund	1,716,187,365	1,782,193,484	178,914,260	3,677,295,109
Dedicated Funds	129,346,031	143,107,074		272,453,105
Federal Funds				
Total	1,845,533,396	1,925,300,558	178,914,260	3,949,748,214
Education				
General Fund	3,971,775,412	4,128,680,204	6,025,000	8,106,480,616
Dedicated Funds	1,268,061,771	1,378,318,271		2,646,380,042
Federal Funds	26,182,596	26,182,596		52,365,192
Total	5,266,019,779	5,533,181,071	6,025,000	10,805,225,850
Property Tax Replacement Fund	1,015,930,000	1,069,605,000		2,085,535,000
Total Operating Appropriations				
General Fund	6,772,846,679	7,032,865,350	411,482,274	14,217,194,303
Dedicated Funds	3,310,788,616	3,493,970,524	31,309,705	6,836,068,845
Federal Funds	604,275,523	624,904,943	1,467,100	1,230,647,566
Total	10,687,910,818	11,151,740,817	444,259,079	22,283,910,714

Note: These totals are subject to verification with the State Budget Agency.	

Capital Appropriations: FY2000-FY2001.

Fund Type	FY 2000	FY 2001	Biennial Appropriations	Total Appropriations
Build Indiana				
IU Proton Therapy Center			10,000,000	10,000,000
IN Technology Fund			76,000,000	76,000,000
21st Cent. Research & Tech.	25,000,000	25,000,000		50,000,000
Digital TV Conv.-Public TV			20,000,000	20,000,000
Wastewater & Drinking Grants/Loans			40,000,000	40,000,000
Other Projects			17,250,000	17,250,000
Special BIF			10,000,000	10,000,000
Local Projects			89,138,555	89,138,555
Subtotal Dedicated	25,000,000	25,000,000	262,388,555	312,388,555
Construction				
State General Fund - Lease Rentals			124,044,008	124,044,008
State General Fund - Construction			403,334,656	403,334,656
Subtotal General			527,378,664	527,378,664
State Police Building Account			1,955,580	1,955,580
Law Enforce. Academy Bldg Fund			1,700,000	1,700,000
Cigarette Tax Fund (Nat'l Resource)			8,927,601	8,927,601
Veterans' Home Building Fund			4,080,031	4,080,031
Postwar Construction Fund			29,342,259	29,342,259
Subtotal Dedicated			46,005,471	46,005,471
Subtotal Construction			573,384,135	573,384,135
Total Capital Appropriations				
General Fund			527,378,664	527,378,664
Dedicated Funds	25,000,000	25,000,000	308,394,026	358,394,026
Total	25,000,000	25,000,000	835,772,690	885,772,690

Note: These totals are subject to verification with the State Budget Agency.

***Federal Funds:* Federal funds that are allocated in this bill appear in the summary tables. However, the bill does not include all federal fund allocations which may be appropriated in statute.

Bonding Authority

Bonding Authority: Authority to issue and sell $176,019,000 in bonds for state universities is also provided in the bill. However, these amounts are not included in the tables, above. Also authorized in the bill, but not included in the table, are $17,070,000 in university construction projects financed through lease-purchase arrangements. An additional $13,700,000 of bonding authority is provided in the bill and is not eligible for fee replacement.

Authorized Projects: The bill also authorizes the State Office Building Commission to provide one additional medium security correctional facility and one additional mental health facility. No specific appropriation or bonding authority is provided in the bill.

Children's Health Insurance Program (CHIP) - Costs of Medicaid Expansion: This bill makes permanent the Medicaid expansion for children from families with incomes up to 150% of the federal poverty level (FPL). This expansion was set to expire June 30, 1999. (On June 30, 1999, the eligibility levels will revert to 150% of FPL for infants, 133% of FPL for children aged 1 through 5, and 100% of FPL for children aged 6 through 18.) This provision is estimated to cost $14.19 million for FY2000, about $16.95 million for FY2001, and $17.80 million for FY2002 in state dollars (Total cost = $52.55 million for FY2000, $62.77 million for FY2001, and $65.94 million for FY2002; federal share = $38.36 million for FY2000, $45.82 million for FY2001, and $48.14 million for FY2002). The enrollment and cost estimates were developed by The Lewin Group for the Governor's Children's Health Insurance Advisory Panel.

Costs of CHIP Program: The CHIP program was authorized by Congress in 1997. Indiana's allotment is about $97.09 million for each of FFY1999 and FFY2000; $102.41 million for FFY2001; and $78.47 million for FFY2002. Unused allotments may be rolled over to the next year. Each year's allotment remains available for three years, after which the unused allotment is returned for redistribution to other states. The CHIP program funding also comes with an enhanced federal match of about 73%, compared with the current federal match under the Medicaid program of about 61%. The reimbursement for expenditures under the CHIP program, as well as the Medicaid expansion described above, will be made at the enhanced rate of 73%.

The estimated cost of the CHIP program for those children between 150% and 200% of the federal poverty level in state dollars is $6.92 million for FY2000, $11.73 million for FY2001, and $13.24 million for FY2002 (Total cost = $25.64 million for FY2000, $43.46 million for FY2001, and $49.04 million for FY2002; federal share = $18.72 million for FY2000, $31.73 million for FY2001, and $35.80 million for FY2002). Although the bill is not specific about the benefit package to be offered, the benefit package described by the CHIP Advisory Panel is used for estimating costs. The cost estimates include direct services, as well as administrative costs. Eligibility requirements may be adjusted by the Family and Social Services Administration (FSSA) based on available program resources. These estimates include the estimated cost of mental health parity.

The Children's Health Insurance Program Fund is also established by the bill. The Fund is to be a revolving fund for the purpose of paying expenses related to the CHIP program. Funds do not revert to the General Fund at the end of a fiscal year. The Fund includes amounts appropriated by the General Assembly and by the federal government, as well as fees, charges, gifts, grants, and donations.

Community College Program: This bill establishes a community college program by coordinating the programs offered by Vincennes University and Ivy Tech State College. Each institution will remain independent. Under this program, Ivy Tech State College shall offer (1) associate of science and associate of applied science degrees, (2) anatomy and physiology, computer literacy, and 100-level mathematics courses; and (3) all remedial education. Vincennes shall offer general associate of arts and associate of science degrees, which consist of courses that are in the liberal arts, and general education courses, including calculus and 200-level mathematics courses, except those general education courses to be taught by Ivy Tech State College.

A community college policy committee is created to: (1) oversee the implementation of the community college system, including the selection of the sites at which the community college system will be offered and the timetable for implementing these sites; (2) review the broad policies and principles to be used to carry out and guide the implementation; and (3) serve as a communication link among the two boards of trustees and the Commission for Higher Education with regard to implementing the community college system.

The community college policy committee consists of three members of the Vincennes University board of trustees, three members of the Ivy Tech State College state board of trustees, and five members appointed by the governor. The president of Vincennes University, the president of Ivy Tech State College, and the commissioner for higher education shall serve as ex officio members of the community college policy committee.

The community college site selected by the community college policy committee may not be implemented unless the Legislative Council has recommended the approval of the site to the State Budget Committee; and the State Budget Committee has approved the site. The community college system may not be implemented at more than ten Ivy Tech State College sites before July 1, 2002.

Adding new programs would likely increase enrollment for either Vincennes University, Ivy Tech or both. The full impact of this enrollment increase would not be known for several years. Program sites are currently not anticipated to require additional capital costs, but may require additional faculty and support staff as enrollments grow.

The cost of each student attending is offset by a combination of tuition paid by the student, financial assistance provided by state programs, and actual state expenditures based on enrollment. Consequently, the additional programs that would be offered would likely require enrollment change funding for operations of Ivy Tech and Vincennes and additional requests for state financial assistance from programs that are administered by the State Student Assistance Commission.

For the 2000 - 2001 biennium, $520,000 and $1.49 million are appropriated for start up expenses for the first and second years biennium respectively.

<u>Education</u>

Indiana Technology Fund programs: For the biennium, $76 M is appropriated from the Build Indiana Fund to the Indiana Technology Fund. These funds are to be allocated to Libraries (INSPIRE project), Intelenet, the Department of Education/technology grants and IHETS for the state backbone.

School Funding Formula: This bill establishes the school funding formula for CY 2000 and CY 2001 to fund Indiana's 294 school corporations. Funding consists of the following components: 1) an equalized amount (based on a school corporation's property wealth) that includes state tuition support, the school corporation's general fund levy, and its previous year's auto excise and financial institutions tax revenue; and 2) six categorical funding grants including Special and Vocational Education, At-Risk, Primetime, Growing Enrollment, and Academic Honors.

The school funding formula calculates a general fund tax rate and levy for each school corporation, and limits each school corporation's tax rate increase and decrease from the previous year. Each school corporation is guaranteed a set per-pupil, per-penny property tax yield via the school funding formula (if a school corporation is not able to generate this set guarantee, the difference is made up in state tuition support).

This bill would set the school funding formula caps for CY 2000 and CY 2001, respectively, at $3,144,500,000 and $3,321,000,000.

Primetime Formula: This bill distributes Primetime funding for grades K-3 based on a target pupil teacher ratio for the school corporation computed using the school corporation's at-risk index. Other factors such as the school corporation's total regular general fund revenue, ADM, and staff cost amounts are used to calculate final distributions. Beginning in 2000, Primetime distributions will be determined on a calendar year basis.

Vocational Education Grants: The bill revises the Vocational Education grant program and establishes a three tiered approach based upon the Department of Workforce Development projected job demands. It provides a waiver to recognize local market economic demands.

School Corporation Fiscal Year Budget: This bill extends provisions that convert school corporations from a calendar year budget to a fiscal year budget to July 1, 2001.

Local Road & Street Funding

Local Road and Street Fund: This bill appropriates $100 M from the State General Fund to the Local Road and Street Fund in monthly installments of $8,333,334 for FY 2000 and FY 2001.

Pension Relief

Pension Relief Fund: This bill appropriates $20 million from Lottery revenue to the "m" portion of the Pension Relief Fund for FY 2000 and FY 2001 for police and fire pensions. Each year, Lottery revenue is first transferred to the Pension Relief Fund and the Teachers' Retirement Fund. Remaining Lottery revenue is then deposited in the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund (BIF). A statutorily-determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. A portion of money remaining in the LGSA is then transferred to the State and Local Capital Projects Account (SLCPA) within the BIF. Based on projected gaming revenue, it is estimated that there will be sufficient revenue in the LGSA for distributions to MVETRA and the SLCPA after the additional $20,000,000 distribution to the Pension Relief Fund.

The Pension Relief Fund provides assistance to those units most in need. It addresses the "distressed" communities. The distribution is based on calculation of the communities' total net police and fire pension payment, with a qualification level of those communities with annual payments equal to or greater than 10% of the maximum property tax levy. The relief is focused on unfunded liabilities, allowing units to freeze those payments to their current percentage of the maximum levy. The table below shows the impact on the amount of relief available as a result of the new $20 M annual appropriation.

Year	**$20 million annually**
1999-2010	NC
2011	$78,174,810
2012	$88,936,340
2013	$100,792,820
2014	$111,085,930
2015	$105,815,130
2016-thereafter	$0
Total	$484,805,030

The additional annual appropriations will extend the life of the "m" portion of the Pension Relief Fund by approximately 4.5 years, from 2011 to mid 2015.

Pension Stabilization Fund: This bill also appropriates $125 M in FY 2000 and FY 2001 to the Teacher's Retirement Fund. The $125 million annual appropriation to the Pension Stabilization Fund from the State General Fund will lower the necessary required contributions for the Teachers' Retirement Fund in future years. A $125 million appropriation for the next two fiscal years will save an estimated $1,654.3 billion in State General Fund contributions by the year 2033. These estimates are based on an 8% rate of return. The actual savings may vary and will depend upon the rate of return.

Pension Reserve Fund: The bill also appropriates $65 M to TRF Pension Reserve Fund for the biennium.

Pension Reserve Reimbursement: The bill also appropriates $65,000,000 for the FY1998-1999 biennium for pension reserve reimbursement.

Safe Schools: The Indiana Safe Schools Fund may also be used to fund the use of dogs trained to detect drugs, explosives, and illegal substances as well as firearms and to provide grants for school safety and safety plans. This bill also changes the priority for awarding grants by making grants for safety plans a top priority followed by safe haven grants.

For the Indiana Safe Schools Fund, $4,338,000 is a appropriated for FY 2000 and $3,750,000 is appropriated for FY 2001. Of these appropriations for the Indiana Safe Schools Program, $3,000,000 is appropriated annually to provide grants to school corporations for School Safe Haven Programs, emergency preparedness programs, and school safety programs, and $750,000 is appropriated annually for use in providing training to school safety specialists. Additionally, $2,000 is appropriated to each school corporation to be used for participation in a County School Safety Commission in fiscal year 1999-2000.

Swap Agreements: This bill would also give the State Office Building Commission and the State Budget Agency access to the same financing options that are currently available to the Indiana Transportation Finance Authority. Access to these financing options may provide the State Office Building Commission and the State Budget Agency the opportunity to decrease borrowing costs. Lower borrowing costs would decrease lease or contract costs paid by the state.

TANF Maintenance of Effort

Not included in the above table is an appropriation of $25,000,000 beginning July 1, 1998, to enable the state to meet the federal maintenance of effort requirement for the Temporary Assistance to Needy Families (TANF) block grant.

Tax Provisions:

Personal Property Tax Credit: This bill grants a credit against property tax liabilities on personal property owned by businesses and individuals, and on mobile homes beginning with taxes paid in CY 2000. The credit is equal to the net tax liability on up to $12,500 of the assessed value of the personal property. For CY 2000, this credit is estimated to cost $47.6 M for business property, $11.5 M for individual property, and $23.1 M for mobile homes. The total cost for this provision is estimated at **$41.1 M in FY 2000 (½ year) and $84.3 M in FY 2001**. These credits will be paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund.

Welfare Property Tax: Under this bill, the State Division of Family and Children will be responsible for all costs currently paid from the County Welfare and County Welfare Administration Funds beginning in CY 2000. Based on the local revenues raised for these funds, net state expenses are estimated at $43.5 M in CY 2000 and $49.2 M in CY 2001 or **$21.8 M in FY 2000 (½ year) and $46.4 M in FY 2001**.

The net cost above reflects savings from property tax replacement credits (PTRC) and homestead credits that are currently paid to counties for these funds. The net amounts also reflect excise tax and financial institutions tax (FIT) distributions that the state will receive from the counties that will be equal to the amount that would have been deposited into the two county welfare funds had they not been repealed by this proposal.

Explanation of State Revenues: (Revised) *Property tax add back*: This bill is effective for tax years beginning January 1, 1999 and will affect revenue collection beginning in FY 2000. The total estimated loss of income tax revenue would be $84.2 M in FY 2000 and $88.6 M in FY 2001.

Business property taxes: Business property taxes are added back on Corporate and Individual Income Tax returns. Based on a sample of *Corporate Income Tax* returns, it is estimated that the revenue loss in Corporate Gross, Adjusted Gross and Supplemental Net Income Taxes due to **not** adding back property taxes would be $42.3 M in FY 2000 and $44.2 M in FY 2001.

The 1995 statistics of *Individual Income Tax* returns indicate that $845.1 M was added back for taxes paid. It is assumed that all of these taxes were paid on property. A history of the Individual Income Tax returns indicates that taxes paid will continue to increase at an average rate of **6%** for the next few years. Applying this increase to the amount of taxes that would not be added back on the Individual Income Tax returns, would result in an estimated revenue loss of approximately $38.5 M in FY 2000 and $40.8 M in FY 2001.

Financial Institution Tax: Based on the FY 1997 *Financial Institutions Tax* returns, it is estimated that these taxpayers added back approximately $537 M in property taxes. When taking into account the apportionment factor, the estimated revenue loss from not adding back these taxes will result in a revenue loss from the Financial Institutions Tax of $3.4 M in FY 2000 and $3.6 M in FY 2001.

The total loss of revenue from eliminating the property tax add back would be $84.2 M in FY 2000 and $88.6 M in FY 2001.

Income tax deduction for Residential/homeowners' property taxes: This bill also allows individual taxpayers to deduct property taxes paid on their principle place of residence up to $2,500. Based on information from the State Tax Board and the Internal Revenue Service, it is estimated that this deduction will reduce Individual Income Tax revenue by $54.2 M in FY 2000 and $57.4 M in FY 2001.

Revenue from Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax and the Financial Institution Tax is deposited in the General Fund and the Property Tax Replacement Fund.

Earned Income tax deduction and credit: This bill repeals the current earned income tax deduction and replaces this deduction with an earned income tax credit effective for tax years beginning January 1, 1999. The eligibility remains the same for the credit with only taxpayers who have gross income under $12,000 and a qualified dependent being eligible to take this new credit. The initial estimate of revenue loss from the current earned income tax deduction was $14 M. This new estimated revenue loss from the refundable earned income tax credit is $17.4 M with $13.8 M being the amount estimated to be refundable to taxpayers.

Explanation of Local Expenditures: (Revised) See Local Revenues below for the estimated impact on local expenditures for county welfare.

Explanation of Local Revenues: (Revised) This bill makes appropriations for tuition support, Property Tax Replacement Credits and Homestead Credits.

Income Tax Deduction & Property Tax Add back: The change in the calculation of Indiana taxable income will also reduce the amount of revenue collected for counties that impose a local option income taxes.

Personal Property Tax Credit: This provision has no effect on local revenues. The credit is totally state funded.

Welfare Property Tax: This bill eliminates the County Welfare and County Welfare Administration Funds and the property tax levies for those funds. While revenues will be reduced, expenses will be reduced by the same amount. The revenue reduction from the elimination of these funds (including gross property tax levies, excise tax, and FIT) is estimated at **$64.3 M in CY 2000 and $72.6 M in CY 2001.**

Property taxpayers' net levies would be reduced by approximately $43.5 M in CY 2000 and $49.2 M in CY 2001. The net levy amount takes PTRC and homestead credit into consideration. The statewide net tax rate reduction is estimated to be $0.0770 per $100 AV in CY 2000 and $0.0839 per $100 AV in CY 2001.

Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the taxing district's tax rate. As a consequence of eliminating these welfare levies and tax rates, TIF proceeds would be reduced. If the welfare tax rates had been eliminated in CY 1998, TIF districts, statewide, would have lost about $932,000. If the elimination of the two welfare funds adversely affects a TIF area's ability to repay obligations on which a pledge was made before July 1, 1999, the TIF area would be authorized to 1) impose a special assessment ; 2) reduce or eliminate the PTRC-like credit in the TIF area; or 3) use any tax increment revenues that exceed the amounts needed to pay obligations and provide reserves, in order to provide sufficient funds.

State Agencies Affected: All

Local Agencies Affected: All

Information Sources: State Budget Agency; Department of Education; Family and Social Services Administration - Division of Family and Children; State Tax Board; Department of Revenue; Local Government Database; *1998 Property Tax Analysis*.